

**City of East Lansing, Michigan
District Court, 54-B Judicial District**

**Financial Report
with Supplemental Information
June 30, 2008**

City of East Lansing, Michigan

District Court, 54-B Judicial District

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Independent Auditor's Report

To the Honorable Judges,
Members of City Council, and
District Control Unit
District Court, 54-B Judicial District
East Lansing, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of East Lansing, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 5, 2008, which expressed unqualified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Those basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Lansing, Michigan's basic financial statements. The accompanying financial statements of the District Court Funds of District No. 54-B are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information presented has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 5, 2008

City of East Lansing, Michigan

District Court, 54-B Judicial District

Balance Sheet June 30, 2008

Assets

Cash (Note 2)	\$ 206,676
Accounts receivable	<u>38,404</u>
Total assets	<u><u>\$ 245,080</u></u>

Liabilities

Appearance bond deposits	\$ 89,868
Due to State of Michigan	74,091
Due to Ingham County	28,580
Due to Michigan State University	8,912
Due to others	<u>43,629</u>
Total liabilities	<u><u>\$ 245,080</u></u>

City of East Lansing, Michigan

District Court, 54-B Judicial District

Notes to Balance Sheet
June 30, 2008

Note 1 - Significant Accounting Policies

The City of East Lansing, Michigan District Court, 54-B Judicial Court (the "Court") was established by the State of Michigan under Public Act 169 (the "Act") on January 1, 1973. Under the provisions of the Act, the City of East Lansing, Michigan (the "City") is designated as the district control unit and is responsible for providing facilities and administrative assistance to the Court. As part of carrying out its responsibilities, the Court collects the revenue for fines and penalties on behalf of the State of Michigan, Ingham County, and Michigan State University and remits the appropriate amounts to such governmental entities. Such amounts are shown as receipts and disbursements of the Court. In return for such services, a portion of certain fines and costs assessed by the Court (after expenditures for operations) reverts to the district control unit. The Court is not considered a component unit of the City as the Court has no separate governing board. Court revenue retained by the City and all operating expenditures are recorded in the General Fund of the City.

Basis of Accounting - Transactions of the Court are recorded using an Agency Fund. The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the Court holds for others in an agency capacity.

Note 2 - Cash

As of June 30, 2008, the carrying amount and the bank balance of the Court's cash on deposit was \$206,676. Of that amount, \$100,000 was covered by federal depository insurance and \$106,676 was uninsured and uncollateralized.

Other Supplemental Information

City of East Lansing, Michigan

District Court, 54-B Judicial District

Schedule of Receipts and Disbursements Year Ended June 30, 2008

Receipts

Fines:	
District Court	\$ 1,873,985
Parking	1,651,167
Penal	378,567
Court costs	881,469
State statute costs	852,473
Restitution	79,923
Court screening fees	44,432
Operating under the influence cost recovery	49,950
Other	46,530
	<hr/>
Total receipts	5,858,496

Disbursements

Current:	
Payments to:	
State of Michigan	852,473
Ingham County	378,567
Michigan State University	96,598
Restitution	79,923
Salaries	1,496,148
Fringe benefits	626,308
Witness and jury fees	14,079
Data processing services	25,165
Rental equipment	185
Printing	27,949
Office supplies	15,428
Process server fees	3,366
Postage	34,606
Telephone	18,962
Professional services	33,211
Conference and travel	5,997
Repairs and maintenance	57,510
Law library	8,268
City courthouse rental	266,200
Capital outlay	6,865
Cost recovery	23,295
Other	47,920
Remitted to district control unit	1,765,594
	<hr/>
Total disbursements	5,884,617

Decrease in Cash (26,121)

Cash

Beginning of year	<hr/> 232,797
End of year	<hr/> \$ 206,676

City of East Lansing, Michigan

**Report to the City Council
Year Ended June 30, 2008**



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To the City Council
City of East Lansing, Michigan

We have recently completed our audit of the basic financial statements of City of East Lansing, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of results of the audit and legislative items which impact the City:

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We would like to thank all of the City personnel for their cooperation and patience extended to our staff during the audit process. We would be happy to answer any questions you have regarding the basic financial statements or to assist you with any other items.

Plante & Moran, PLLC

November 5, 2008

Results of the Audit

November 5, 2008

To the City Council
City of East Lansing, Michigan
410 Abbott Road
East Lansing, MI 48823

We have audited the financial statements of the City of East Lansing, Michigan for the year ended June 30, 2008 and have issued our report thereon dated November 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 8, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of East Lansing, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of City of East Lansing, Michigan's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City of East Lansing, Michigan's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 5, 2008 regarding our consideration of the City of East Lansing, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. No such conditions were required to be communicated.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the City of East Lansing, Michigan, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* requires disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 23, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of East Lansing, Michigan are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are:

- Self-insured liability for general claims, workers' compensation claims, and prescription medication benefits as disclosed in Note 8
- Valuation of actuarial accrued liability for pension benefits, as disclosed in Note 9

Management's estimate of the self-insured liability is based on the City's calculation of future expenditures for these expenses. Management's estimate of valuation of the actuarial accrued liability for pension benefits is actuarially calculated. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has determined that the effects of the following adjustments are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

- Adjustment in the Garage Fund to remove a tractor from the capital asset listing that was traded in during the year (\$9,306)
- To remove accounts payable in the General Fund related to prepaid postage that was acquired in the 2009 fiscal year (\$10,000)
- To record bad debt write-offs in the General Fund related to ambulance receivables (\$44,000)

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated November 5, 2008.

November 5, 2008

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues


In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

In addition to the comments and recommendations in this letter, our observations and comments regarding the City of East Lansing, Michigan's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the accompanying report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the federal awards supplemental information (the single audit report), and we recommend that the matters we have noted there receive your careful consideration.


This information is intended solely for the use of the City Council and management of the City of East Lansing, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Jean Young, CPA
Partner



Joe Heffernan, CPA
Partner

Legislative Items

Retiree Healthcare Benefits

As noted in the City's Comprehensive Annual Financial Report and in previous letters to the City Council, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements rather than the individual fund level, and will become effective to the City for the fiscal year ending June 30, 2009. The City has established a healthcare funding vehicle with MERS, and will be making a decision as to the level of funding to provide in the current year.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. The reason for this larger impact is that the mathematical calculation of Proposal A takes place property by property, rather than in total for the entire community. As a result, the longer the market declines, the more properties will have their market values decline sufficiently to cause a decline in taxable value. We expect that this decline will cause property taxes to remain stagnant or declining for a period of years.

Potential Legislation Impacting Property Taxes

While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).

- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the Legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.

City of East Lansing, Michigan

Legislative Items

- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e. such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

Revenue Sharing

The table below details state-shared revenue for the City since 2001 broken out by constitutional and statutory portions:

State Fiscal Year	Constitutional	Statutory	Total
2001	\$ 3,016,903	\$ 3,996,301	\$ 7,013,204
2002	3,047,634	3,747,974	6,795,608
2003	3,099,230	3,462,640	6,561,870
2004	3,065,565	2,831,934	5,897,499
2005	3,138,723	2,694,493	5,833,216
2006	3,192,160	2,576,152	5,768,312
2007	3,125,832	2,470,700	5,596,532
2008	3,230,194	2,366,338	5,596,532
2009 projected	3,172,837	2,473,109	5,645,946

It is apparent from the chart that the State has not funded the statutory revenue sharing to its funding levels in the statutes. You are well aware that this has been caused by the State's cutting of revenue sharing to help in balancing its General Fund budget. That said, it is still heartening to see the legislature work in the 2009 budget to maintain state-shared revenue at its current levels. However, in light of the current economic environment and anticipated further state budget difficulties, we strongly encourage local governments to be conservative when budgeting or projecting revenue sharing for the next few years.

Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund (MSF) to their Local Street Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

In the current instructions to the Act 51 reports, MDOT has stipulated that these transfers from the MSF to the LSF will not be allowed after December 31, 2008, except to the extent matched by local revenues expended by the city or village of the major street system. It is unclear whether the actual legislation that allows this transfer (MCL Section 247.663(12) of PA 51 of 1951, as amended) is set to expire at the end of the year. Local governmental units should, however, be aware of this potential sunset and take appropriate action prior to December 31, 2008 to make transfers that are allowable through this date.

Fair and Accurate Credit Transactions

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the Red Flag Rules encompassed in them, may be applicable to municipal utility systems. The rules, put in place as a measure to protect against identity theft, indicate that a “creditor” with a “covered account” must implement a written identify theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash, and the like are sold to customers day-by-day but paid for at the end of the billing cycle.

The act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

City of East Lansing, Michigan

Legislative Items

We understand that recent action has pushed back the required implementation date of this act, to allow creditors more time to put these new systems in place. We encourage you to follow up with legal counsel if you believe this act may apply to your governmental unit.

Other Legislative Items

- As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishing, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as "Public Act 20" which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.

City of East Lansing, Michigan

Legislative Items

- At the federal level, a 2005 law change continues to get more attention as its effective date approaches. As part of the Tax Increase Prevention and Reconciliation Act of 2005, a new mandate was introduced which will require any governmental entity spending more than \$100 million a year in goods and services to withhold 3 percent of government payments beginning in 2011. Governmental units subject to this requirement will also be subject to new reporting rules for applicable payments. Numerous groups - both public and private sector, including the U.S. Department of Defense - have expressed concerns on the cost and practicality of implementing this new mandate. A bill is pending in Congress to delay implementation by a year until January 2012.